

Naval Audit Service



Audit Report



Status of the Department of the Navy Processes and Controls Regarding the Management of the Government of Japan Funds Related to the Marine Corps' Relocation

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N2009-0038
9 July 2009

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MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND ENVIRONMENT)
EXECUTIVE DIRECTOR, JOINT GUAM PROGRAM OFFICE
COMMANDANT OF THE MARINE CORPS

Subj: **STATUS OF THE DEPARTMENT OF THE NAVY PROCESSES AND CONTROLS REGARDING THE MANAGEMENT OF THE GOVERNMENT OF JAPAN FUNDS RELATED TO THE MARINE CORPS' RELOCATION (AUDIT REPORT N2009-0038)**

Ref: (a) NAVAUDSVC memo N2008-NIA000-0063.000, dated 9 Oct 2007
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"

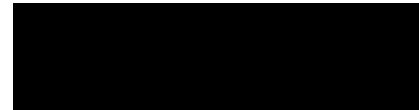
1. The report provides results of the subject audit announced in reference (a). Section A of this report provides our finding and recommendations, summarized management responses, and our comments on the responses. Section B provides the status of the recommendations. The full text of management responses is included in the Appendixes.

2. Recommendation 1 of this report is addressed to the Office of the Assistant Secretary of the Navy (Installations and Environment) (ASN (I&E)). Recommendation 2 is addressed to the Executive Director, Joint Guam Program Office. Recommendation 3 is addressed to the Commandant of the Marine Corps.

- Per agreement with ASN (I&E), we are accepting their management response to, and planned corrective actions for, Recommendation 1 of Naval Audit Service report N2009-0028, "Verification of an Acquisition Strategy for the United States Marine Corps' Relocation Effort," (8 May 2009) as also being responsive to Recommendation 1 of this report.
- The Executive Director, Joint Guam Program Office concurred with Recommendation 2 and plans appropriate corrective actions.
- The Commandant of the Marine Corps concurred with Recommendation 3 and plans appropriate corrective actions.

Subj: **STATUS OF THE DEPARTMENT OF THE NAVY PROCESSES AND CONTROLS REGARDING THE MANAGEMENT OF THE GOVERNMENT OF JAPAN FUNDS RELATED TO THE MARINE CORPS' RELOCATION (AUDIT REPORT N2009-0038)**

3. All three recommendations are considered open pending completion of the planned corrective actions, and are subject to monitoring in accordance with reference (b). Management should provide a written status report on the recommendations within 30 days after target completion dates.
4. Please provide all correspondence to the Assistant Auditor General for Installations and Environment Audits, Mr. Ron J. Booth, ronnie.booth@navy.mil., with a copy to the Director, Policy and Oversight, vicki.mcadams@navy.mil. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.
5. Any requests for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (b). This audit report is also subject to followup in accordance with reference (b).
6. We appreciate the cooperation and courtesies extended to our auditors.



XXXXXXXXXXXXXXXXXXXX

Assistant Auditor General
Installations and Environment Audits

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Executive Summary

Overview

Financial management policies and procedures, and efficient and effective internal management controls, are essential to maintaining oversight of both funds received from the Government of Japan (GOJ) as well as funds allocated by the United States for the relocation of Marine Corps forces to Guam. Therefore, the Naval Audit Service (NAVAUDSVC) is working with the Department of the Navy (DON) to verify that effective policies, procedures, internal management controls, and oversight plans are in place to ensure the efficient and effective use of funds.

Reason for Audit

The Assistant Commandant of the Marine Corps requested that NAVAUDSVC conduct audits related to the Marine Corps relocation from Okinawa, Japan, to Guam. In accordance with this request, NAVAUDSVC is examining various risk areas related to the relocation.

The objective of this audit was to verify that DON has controls in place to efficiently and effectively manage GOJ funding related to the Marine Corps' relocation from Okinawa, Japan, to Guam.

Conclusions

DON has a standard process and controls in place for planning, programming, budgeting, and executing military construction (MILCON) funds. However, to transmit the GOJ Mamizu funds to DON, the Office of the Under Secretary of Defense plans to transfer funds received from the GOJ and issue an Obligation Authority Letter to DON. DON will, in turn, issue the funds to the Naval Facilities Engineering Command (NAVFAC) for execution. Although plans are in progress to facilitate the flow and execution of the GOJ Mamizu funds, the Joint Guam Program Office (JGPO) had not fully developed a process with internal management controls to ensure that they maintain oversight over the GOJ Mamizu funds. This occurred because JGPO was primarily focused on negotiations with GOJ. Further, JGPO had not yet clearly defined or promulgated roles and responsibilities related to the management of GOJ Mamizu funds. According to JGPO representatives, establishing internal policies, procedures,

and management controls will be established after negotiations between the U.S. and the GOJ are finalized.

Since a process had not been fully developed for JGPO to maintain oversight over the management and execution of GOJ Mamizu funds, the reliability of internal and external financial data may be impacted. As a result, DON's ability to provide GOJ assurance that their funds will be sufficiently managed, expended according to agreements, and accurately reported, may be jeopardized.

To assist JGPO in maintaining visibility and oversight of GOJ Mamizu funds, JGPO should coordinate with the Office of the Secretary of Defense (OSD); Defense Finance and Accounting Service; Office of Assistant Secretary of the Navy (Financial Management and Comptroller) [ASN (FM&C)]; Headquarters, Marine Corps (HQMC); and NAVFAC.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) of 1982, as codified in Title 31, United States Code, requires each Federal agency head to annually certify to the effectiveness of the agency's internal and accounting system controls. In our opinion, the issues discussed in this report do not warrant inclusion in the Auditor General's annual FMFIA memorandum identifying internal control weaknesses to the Secretary of the Navy.

Corrective Actions

We recommend that the Assistant Secretary of the Navy (Installations and Environment) develop and promulgate policy that defines roles, responsibilities, and clear lines of authority for financial management; and coordinate with the Office of the Secretary of Defense, and the Office of Financial Management and Comptroller to ensure that JGPO is able to maintain oversight of GOJ Mamizu funds. We also recommend that the Executive Director, JGPO coordinate with the Defense Finance and Accounting Service, Marine Corps, and NAVFAC to obtain access to information needed to provide visibility and oversight of GOJ Mamizu funds and Marine Corps relocation requirements. Finally, we recommend that the Commandant of the Marine Corps direct HQMC to coordinate with NAVFAC to facilitate the execution of the Marine Corps relocation MILCON projects in the same manner as used for the standard MILCON process.

Management concurred with all three recommendations and plans appropriate corrective action. Specifically:

- Assistant Secretary of the Navy (Installations and Environment) roles and responsibilities policy is being drafted by JGPO. The policy will define the roles and responsibilities of JGPO, the Marine Corps, and NAVFAC, and will establish clear lines of authority for project management.
- JGPO is coordinating across elements of the Office of the Secretary of Defense, Defense Finance and Accounting Service, HQMC, NAVFAC, and FMB organizations as well as GOJ to capture the most efficient GOJ funds administrative process that will provide all parties with the policies and procedures for management and oversight of GOJ Mamizu funds.
- The Marine Corps is working with the Assistant Secretary of the Navy (Installations and Environment), JGPO, and NAVFAC on a policy that defines all organizations' roles, responsibilities and authority lines for financial management, and to clearly define processes outlining those roles, responsibilities, and authority.

Section A:

Audit Results

Department of the Navy Processes and Controls for the Management of the Government of Japan Mamizu Funds Related to the Marine Corps' Relocation

Synopsis

The Office of the Under Secretary of Defense, Comptroller (OUSD(C)) led the initiative to draft a preliminary Concept of Operations (CONOPS) document outlining processes for depositing, disbursing, and returning excess funds received from the Government of Japan (GOJ). The Department of the Navy (DON) has a standard process for managing and executing Military Construction (MILCON) funds through the MILCON appropriation. However, to transmit the GOJ direct cash contributions (Mamizu funds) for facilities and infrastructure construction to the DON, the Office of the Under Secretary of Defense plans to transfer funds received from the GOJ and issue an Obligation Authority Letter to the DON. DON will, in turn, issue the funds to the Naval Facilities Engineering Command (NAVFAC) for execution. Although plans are in progress to facilitate the flow and execution of the GOJ Mamizu funds, the Joint Guam Program Office (JGPO) had not fully developed a process or policies with internal management controls to ensure that they maintain oversight of the GOJ Mamizu funds. This occurred because JGPO was primarily focused on negotiations with GOJ and did not have clearly defined roles and responsibilities related to the management of GOJ Mamizu funds. Such roles and responsibilities should be incorporated into a promulgated policy. According to JGPO personnel, internal processes will be established after negotiations between the United States and the GOJ are finalized.

Although JGPO is working with key players to develop a financial management process for the GOJ Mamizu funds, more attention was needed to fully develop JGPO's internal processes and controls. Establishing internal management policies, processes, and controls at JGPO is critical to effective management and oversight of GOJ Mamizu funds. Without timely implementation, DON's ability to provide GOJ assurance that their funds will be sufficiently managed, expended according to agreements, and accurately reported, may be jeopardized.

Communication with Management

We communicated our audit results to Executive Director for JGPO on 12 March 2009.

We communicated our audit results to Lead Analyst MILCON/Base Closure and Realignment (BRAC), Assistant Secretary of the Navy (Financial Management and Comptroller (ASN (FM&C)) on 17 March 2009.

We communicated our audit results to Special Assistant to the Executive Director, NAVFAC, Headquarters on 12 March 2009.

We communicated our audit results to Deputy Director, Pacific Division, Plans, Policies and Operations, Headquarters Marine Corps (HQMC), on 12 March 2009.

We communicated our audit results to Chief, Trust Fund Accounting, Defense Finance and Accounting Service (DFAS), on 5 February 2009.

Discussion of Details

Introduction

Title 10, section 2350k of the United States Code granted the Secretary of Defense authority to accept cash contributions from any nation in support of a relocation of elements of the armed forces. Through agreements between the United States and the Japanese Government, GOJ is expected to provide \$2.8 billion in direct cash contributions (GOJ Mamizu funds) and approximately \$3.3 billion in Japanese financial instruments for the Marine Corps relocation from Okinawa to Guam.

The Department of Defense (DoD) Financial Management Regulation governs the acceptance, receipt, use, and reporting of burden sharing and relocation monetary contributions. Specifically, Volume 12, Chapter 24, prescribes the policy and responsibilities for oversight of funds received from foreign allies.

Processes and Controls over GOJ Mamizu Funds

The DON has a standard process for managing and executing MILCON funds. However, to transmit the GOJ Mamizu funds to the DON for the Marine Corps relocation, the Office of the Under Secretary of Defense plans to transfer the funds received from the GOJ and issue an Obligation Authority Letter to the DON. In turn, DON will issue the funds to the NAVFAC for execution. Although plans are in progress to facilitate the flow and execution of the GOJ Mamizu funds, the JGPO had not fully developed roles,

responsibilities or processes and procedures with controls to ensure they maintain oversight and are abreast of all pertinent decisions and transactions associated with the GOJ Mamizu funding.

The Office of the Secretary of Defense (OSD)

The DoD Financial Management Regulation designated OUSD(C) as the single point of contact with the Departments of State and Treasury for matters involving acceptance, receipt, administration, and distribution of contributions from foreign countries for relocation support. In response to initial meetings between the U.S. Government and the GOJ, OUSD(C) drafted a preliminary CONOPS in an effort to outline processes for depositing, disbursing, and returning excess funds received from the GOJ. According to the preliminary CONOPS, a trust fund has been established with separate treasury accounts reserved for the cash contributions, earnings on investments, and expenditures associated with the Marine Corps' relocation to Guam.

The CONOPS also states that DFAS-Indianapolis, IN, will monitor disbursements and collections, and allocate daily interest earned by the Trust Fund. Additionally, DFAS-Indianapolis will reconcile the balances between the Treasury and the Trust Fund on a monthly basis.

According to the CONOPS, any excess funds will be returned to the GOJ in accordance with the final implementation plan. Once it has been decided that Mamizu funds are to be returned, DFAS-Indianapolis will cease daily investing and will request closure of the Treasury investing account. A voucher will be prepared and the excess funds will be returned to the GOJ.

According to JGPO representatives, the preliminary CONOPS is a work in progress and is currently being revised.

HQMC

HQMC has an active role in the execution of standard MILCON projects. In the standard MILCON process, HQMC works with NAVFAC throughout project execution and use of the MILCON funds. HQMC closely scrutinizes changes to the MILCON requirements, and their approval is required for project changes that exceed \$25,000, as well as changes requested by NAVFAC or Marine Corps personnel. Although HQMC does not have physical control of fund execution, they maintain visibility of the funds through their requirements approval process. In our opinion, to ensure visibility over the GOJ Mamizu funds, HQMC should coordinate with NAVFAC to facilitate the execution of the GOJ Mamizu funds in the same manner as the standard MILCON process.

DFAS

DFAS-Indianapolis stated that their responsibilities include tracking and monitoring disbursements and collections, as well as investing the funds received from GOJ.

According to DFAS, the GOJ Mamizu funds will be maintained in separate accounts. DFAS-Indianapolis is in the process of implementing a new system that will enable them to run queries and reports on the status of GOJ Mamizu funds. DFAS-Indianapolis representatives stated that they were not aware of JGPO or their responsibilities; however, they would be willing to provide JGPO status reports relating to the GOJ Mamizu funds.

DON

The Deputy Secretary of Defense directed DON to establish JGPO to oversee the rebasing of the Marine Corps assets from Okinawa to Guam. The Deputy Secretary of Defense directed JGPO to synchronize the funding requirements between the DoD components to ensure the most efficient use of resources consistent with critical timelines. Although JGPO has this direction, programming and budgeting responsibility remain with the DoD components.

The mission of JGPO is to facilitate, manage, and execute requirements associated with the relocation of the Marine Corps from Okinawa, Japan, to Guam. In line with the mission, JGPO's charter stated that the program office will provide direct support to the ASN (I&E) in maintaining financial oversight of program funding, to include contributions provided by GOJ. Additionally, JGPO's charter indicated that the program office will provide the oversight necessary to manage account deposits and withdrawals of Japanese Mamizu funding. JGPO was also responsible for coordination of the financial efforts of various key players involved in the Marine Corps relocation.

Plans for facilitating the flow of GOJ Mamizu funds are currently ongoing. DON must use the normal budget process to execute the funds received from the GOJ. As a result, the OUSD(C) plans to transfer the funds received from the GOJ and issue an Obligation Authority Letter to the DON. The ASN (FM&C) will then issue the GOJ Mamizu funds to NAVFAC using the assigned Trust Fund Receipt Account with a "special" MILCON subhead specifically assigned to the GOJ Mamizu funds in order to facilitate tracking.

To execute the GOJ Mamizu funds, NAVFAC will utilize the eContracts database that builds line items and sub-line items that feed the acquisition documents to build the contract award, validate the line of accounting and pass it on for posting in the Standard Procurement System. NAVFAC will also use eProjects, which integrates with the Facility Information System and represents a collective, integrated view of real-time NAVFAC operations. It also provides a one-stop access point to all data related to construction projects.

Although OSD, DFAS, Marine Corps, and NAVFAC have processes for managing GOJ Mamizu funds, JGPO had not fully developed internal financial management roles, responsibilities, or processes and procedures with controls to ensure sufficient visibility and oversight. JGPO should coordinate with DFAS, Marine Corps, and NAVFAC to

obtain access to information needed to provide visibility and oversight of GOJ Mamizu funds.

Factors Affecting Formalizing DON Processes and Procedures

JGPO had not fully developed internal financial management roles, responsibilities, or processes and procedures with controls because JGPO was primarily focused on negotiations with GOJ. According to JGPO representatives, formalizing a financial management process specific to the Marine Corps relocation is occurring in two phases. Phase I focused on negotiating how GOJ Mamizu funds will be transferred and managed in the U.S. Treasury account, which has resulted in draft implementation guidance. The guidance outlines results of preliminary agreements between the United States DoD and the Ministry of Defense of Japan.

Phase II will focus on establishing JGPO policies, procedures, and controls for managing the execution of funds received from the GOJ. According to JGPO, Phase II was expected to start by the end of January 2009; however, the start was delayed until May 2009. Prompt formalization of these processes is essential because the first receipt of GOJ funds is expected by mid-August 2009.

Additionally, Naval Audit Service report N2009-0028, “Verification of an Acquisition Strategy for the United States Marine Corps’ Relocation Effort” (8 May 2009) recommended that ASN (I&E) develop and promulgate policy that defines the roles and responsibilities of JGPO, U.S. Marine Corps, and NAVFAC, and establishes clear lines of authority for project management. Defining the roles and responsibilities related to the management of GOJ Mamizu funds should be incorporated in that same promulgated policy. Establishing, formalizing, and promulgating such roles, responsibilities, policies, procedures, and internal management controls will ensure that JGPO obtains the necessary information to make informed, reliable decisions, and ensure that all transactions are completely and accurately recorded.

Impact on the Financial Management Process for GOJ Mamizu Funding

As a result of the conditions discussed above, JGPO’s ability to maintain oversight and monitor the execution of GOJ Mamizu funds may be jeopardized unless roles, responsibilities, policies, and procedures with controls are more fully developed. Taking a proactive approach to establish the financial management process will strengthen DON’s ability to efficiently and effectively manage GOJ Mamizu funding. A proactive approach will also enable DON to provide assurance to GOJ that their funds will be sufficiently managed, expended according to agreements, and accurately reported. The DON may also be assured that financial reports are reliable and status reports to the GOJ as well as responses to inquiries from other stakeholders are accurate.

Recommendations and Corrective Actions

Our recommendations, summarized management responses, and Naval Audit Service comments on the responses are below. The complete text of management responses are in the appendixes.

We recommend that ASN (I&E):

Recommendation 1. Develop and promulgate policy that defines roles, responsibilities, and clear lines of authority for financial management; and coordinate with OSD and FMC to ensure that JGPO is able to maintain oversight of GOJ Mamizu funds.

ASN (I&E) response to Recommendation 1.¹ Concur. ASN I&E roles and responsibilities policy is being drafted by JGPO and will be sent out for coordination with other stakeholders prior to approval. The policy will define the roles and responsibilities of JGPO, the U.S. Marine Corps, and NAVFAC, and will establish clear lines of authority for project management. It will specifically address roles and responsibilities for establishing and implementing an official acquisition strategy as well as financial management and oversight of GOJ funds.

Joint Guam Program Office addendum to ASN (I&E) response to Recommendation 1. An ASN (I&E) roles and responsibilities policy is being drafted by JGPO and will be sent out for coordination with other stakeholders prior to approval. The policy will define the roles and responsibilities of JGPO, the Marine Corps, and NAVFAC, and will establish clear lines of authority for project management. It will specifically address roles and responsibilities for establishing and implementing an official financial management process.

The Marine Corps relocation from Okinawa to Guam is a very complex project that involves Japanese negotiations. In addition, there are many disparate organizations outside of ASN (I&E) that must promulgate policy and have actions regarding the Mamizu funds, which is the subject of this audit. JGPO is working with the Marine Corps, NAVFAC, DFAS, and DON Office of Budget (FMB) to develop a comprehensive DoD management and control process that will define the use of GOJ Mamizu funds in relation to the U.S. financial management procedures for the Marine Corps relocation. This process will clarify all stakeholders' roles and responsibilities. Ultimately, the USD Comptroller will

¹Per agreement with ASN (I&E), rather than requiring a new/separate response to this recommendation, we accepted their response to Recommendation 1 of Naval Audit Service report N2009 0028, "Verification of an Acquisition Strategy for the United States Marine Corps' Relocation Effort," (8 May 2009) as also addressing this recommendation. The ASN (I&E) responses to N2009-0028 are in Appendix 1.

promulgate interim fiscal policy until a formal change is made in the DoD Financial Management Regulation.

JGPO is uniquely suited through its charter to “synthesize and coordinate” and bridge many diverse organizational equities. JGPO will continue to work with OSD, ASN (I&E), ASN (FM&C) and other stakeholders to draft the policies that define roles, responsibilities and clear lines of authority for financial and program management regarding receipt, investment, contract award, disbursement, and reporting of GOJ Mamizu funds related to the Marine Corps relocation. We expect the USD Comptroller to issue the interim guidance by mid June 2009 prior to Japan providing the Mamizu funds to the U.S., and to update the DoD Financial Management Regulation by 1 September 2009.

Naval Audit Service comment on response to Recommendation 1. Actions planned by ASN (I&E) in conjunction with efforts by the JGPO satisfy the intent of the recommendation, which is open pending completion of agreed-to actions. Effective coordination with key players and prompt development of roles, responsibilities, and clear lines of authority will allow the JGPO to maintain control and oversight of the GOJ Mamizu funds.

Note: The initial target completion date for the USD Comptroller interim guidance was mid-June 2009; however, in subsequent correspondence with JGPO, the USD Comptroller will issue interim guidance by the beginning of August. The initial target completion date provided by ASN (I&E) was 31 May 2009; however, in subsequent correspondence, ASN (I&E) provided a new estimated completion date of 1 September 2009.

We recommend that the Executive Director, JGPO:

Recommendation 2. Coordinate with DFAS, HQMC, and NAVFAC to provide visibility and oversight of GOJ Mamizu funds and Marine Corps relocation requirements.

JGPO response to Recommendation 2. Concur. JGPO is coordinating across elements of OSD, DFAS, HQMC, NAVFAC, and FMB organizations as well as GOJ to capture the most efficient GOJ funds administrative process that will provide all parties with the policies and procedures for management and oversight of GOJ Mamizu funds, as noted above. Preliminary draft funds flow processes were shared with the Naval Audit Service on 15 May 2009. Interim and final closure on this recommendation is the same as Recommendation 1(which is 1 September 2009).

Naval Audit Service comment on response to Recommendation 2. Actions planned by JGPO satisfy the intent of the recommendation. Providing management and oversight of the GOJ Mamizu funds will thereby provide visibility and oversight of the relocation requirements. Note: Although JGPO's response indicates that they shared a preliminary funds flow process with the Naval Audit Service on 15 May 2009, the meeting was actually held on 8 May 2009. The recommendation is open pending completion of agreed-to actions. The estimated target completion date is 1 September 2009.

We recommend that the Commandant of the Marine Corps:

Recommendation 3. Direct HQMC to coordinate with NAVFAC to facilitate the execution of the Marine Corps relocation GOJ Mamizu funds in the same manner as used for the standard military construction process.

Marine Corps response to Recommendation 3. Concur. The Installations and Logistics Department is working with ASN (I&E), JGPO, and NAVFAC staffs on a policy that defines all organizations' roles, responsibilities, and authority lines for financial management.

HQMC is also working with all three of those organizations to clearly define processes outlining those roles, responsibilities, and authority. To that end, we have provided ASN (I&E) and JGPO our HQMC standing policy with NAVFAC on MILCON execution.

We defer to ASN (I&E) to provide a completion timeline as all three recommendations are being addressed collectively by all four organizations involved.

Naval Audit Service comment on management response to Recommendation 3. Actions planned by HQMC to work with ASN (I&E), JGPO, and NAVFAC satisfy the intent of the recommendation, which is open pending completion of agreed-to actions. ASN (I&E)'s response to recommendation 1 gives a target completion date of 1 September 2009. Accordingly, 1 September 2009 is the target date for this recommendation, as well.

Section B:**Status of Recommendations**

Finding ²	Rec. No.	Page No.	Subject	Status ³	Action Command	Target or Actual Completion Date	Interim Target Completion Date ⁴
1	1	9	Develop and promulgate policy that defines roles, responsibilities, and clear lines of authority for financial management; and coordinate with OSD and FMC to ensure that JGPO is able to maintain oversight of GOJ Mamizu funds.		ASN (I&E)	09/01/09	
1	2	10	Coordinate with DFAS, HQMC, and NAVFAC to provide visibility and oversight of GOJ Mamizu funds and Marine Corps relocation requirements.		Executive Director JGPO	09/01/09	
1	3	11	Direct HQMC to coordinate with NAVFAC to facilitate the execution of the Marine Corps relocation GOJ Mamizu funds in the same manner as used for the standard military construction process.		Commandant of the Marine Corps	09/01/09	

² / + = Indicates repeat finding.

³ / O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress.

⁴ If applicable.

Exhibit A:

Background and Pertinent Guidance

Background

To reduce the burden of the United States military presence on Japanese communities while maintaining a continuing presence of U.S. forces in the region, the U.S. Japan Defense Policy Review Initiative established a framework for the future of U.S. force structure in Japan and the Marine Corps realignment to Guam. As a part of this initiative, the U.S. Department of Defense plans to move 8,000 III Marine Expeditionary Force personnel and their estimated 9,000 dependents from Okinawa, Japan, to Guam by Fiscal Year 2014. The Government of Japan (GOJ) decided to support the United States in its development of necessary facilities and infrastructure including headquarters buildings, barracks, and family housing, to hasten the process of moving Marine Corps forces from Okinawa to Guam.

Facility and Infrastructure development requirements relating to the relocation are expected to cost approximately \$10.3 billion. The GOJ agreed to provide approximately \$6.1 billion, of which approximately \$2.8 billion, in the form of direct cash contributions, will be designated to facilities and infrastructure development [military construction (MILCON)]. Approximately \$3.3 billion will be provided in the form of Japanese Financial Instruments to fund Special Purpose Entities. The U.S. Government has agreed to fund the remaining costs of the relocation expenses. Title 10, section 2350k of the United States Code grants the Secretary of Defense authority to accept cash contributions from any nation in support of a relocation of elements of the armed forces, while the Financial Management Regulation governs the acceptance, receipt, use, and reporting of relocation monetary contributions.

In 2006, the Deputy Secretary of Defense established the Joint Guam Program Office (JGPO) to coordinate, facilitate, manage, and execute requirements associated with the rebasing of Marine Corps assets from Okinawa, Japan, to Guam and implementation of the Defense Base Realignment and Closure decision to establish a Joint Base on Guam.

The Naval Audit Service is working with JGPO and the Department of the Navy to verify that JGPO is establishing effective oversight plans including a financial management processes with effective controls to manage funds received from GOJ.

Pertinent Guidance

United States Code Title 10 Section 2350k, 3 January 2007. This section of the United States Code provides the Secretary of Defense with permission to accept contributions from any nation because of or in support of the relocation of elements of the armed forces. Subsection “b” specifies that the contribution may only be used for payment of costs incurred in connection with the relocation in which the contribution was made. Section 2350k specifically outlines the methods in which the contributions may be accepted.

Government Accountability Office (GAO)/AIMD-00-21.3.1, November 1999. This document provides the general standards, concepts, and definitions of internal controls for the Federal Government and its agencies.

Department of Defense Financial Management Regulation, Volume 12, Chapter 24, August 2008. Volume 12, Chapter 24 of the Department of Defense Financial Management Regulation prescribes the overall policy and assigns responsibilities for the acceptance, receipt, use, and reporting of burden sharing and relocation monetary contributions to the Department of Defense under Title 10 of the United States Code, sections 2350j and 2350k.

Secretary of the Navy Instruction 5200.35E, 8 November 2006. This instruction includes objectives and responsibilities for assessable units within the Department of the Navy. Specifically, this policy states that all organizations must implement a system of internal controls to provide reasonable assurance that the objectives outlined in this guidance are met.

Office of the Chief of Naval Operations Instruction, 14 October 2005. This instruction provides guidance to ensure that facilities projects are prepared and executed in order to support the installation’s mission and to meet the Department of the Navy’s goals. The Office of the Chief of Naval Operations instruction provides policy and guidance for the classification, preparation, submission, review, approval, and reporting of facilities projects at Department of the Navy shore installations.

Federal Managers’ Financial Integrity Act of 1982. This act requires ongoing evaluations and reports of the sufficiency of the systems of internal accounting and administrative control of each executive agency, and for other purposes.

Exhibit B:

Scope and Methodology

Scope

Our scope encompassed processes and procedures related to the Department of the Navy's management and control over Mamizu funds provided to the United States by the Government of Japan to assist with the relocation of the Marine Corps from Okinawa, Japan, to Guam. We conducted our audit 17 March 2008 through 12 March 2009.

Methodology

We reviewed criteria pertaining to burden sharing and overseas relocation contributions by foreign allies, and the authority to accept, use, and various methods for receiving contributions from other nations in support of relocating elements of the armed forces. To obtain an understanding of the Department of Navy's financial policies, we reviewed procedures for military construction programming, planning, budgeting, and execution. We also reviewed the guidance relative to internal controls over financial reporting.

In addition, we held discussions with/interviewed knowledgeable personnel from the following Program Office/Commands: Joint Guam Program Office; Office of the Secretary of Defense; Naval Facilities Engineering Command Headquarters; and Assistant Secretary of the Navy (Financial Management and Comptroller). We reviewed and analyzed documentation provided to determine processes and procedures for the Department of the Navy's management and control over Government of Japan funding.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Exhibit C:**Major Commands Visited or Contacted**

Activity	Location
Office of the Secretary of Defense	Washington, DC
Defense Finance and Accounting Service	Indianapolis, IN
Financial Management and Comptroller	Washington, DC
Joint Guam Program Office	Arlington, VA
Headquarters Marine Corps	Arlington, VA
Naval Facilities Engineering Command, Headquarters	Washington, DC
Naval Facilities Engineering Command, Pacific	Honolulu, HI

Appendix 1:

Management Response from Office of the Assistant Secretary of the Navy (Installations and Environment)



DEPARTMENT OF THE NAVY
THE ASSISTANT SECRETARY OF THE NAVY
(INSTALLATIONS AND ENVIRONMENT)
3300 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

5200
JGPO/fis
07 Apr 09

MEMORANDUM FOR ASSISTANT AUDITOR GENERAL FOR INSTALLATION AND ENVIRONMENT

SUBJECT: Verification of an Acquisition Strategy for the United States Marine Corps Relocation Effort (Draft Audit Report N2008-NIA000.0065.001)

Ref: (a) Draft Audit Report N2008-NIA000-0065.001 dated 11 Feb 09
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"
(c) SECNAV Instruction 5000.2C
(d) Defense Acquisition Guide (DAG)
(e) NAVAUDSVC memo 7510 N2008-NIA000.0065.000, dated 9 October 2007

Encl: (1) Recommendations Concerning Release of Final Report Information under FOIA

1. This memo is forwarded as feedback on the draft audit report provided under reference (a). In general, we concur with the audit findings and recommendations and will comply by taking the following corrective actions:

Recommendation 1: Develop and promulgate policy that defines the roles and responsibilities of JGPO, USMC, and NAVFAC, and establishes clear lines of authority for project management, including efforts related to establishment and implementation of an official acquisition strategy.

ASN I&E response: Concur. An ASN (I&E) roles and responsibilities policy is being drafted by JGPO and will be sent out for coordination with other stakeholders prior to approval. The policy will define the roles and responsibilities of JGPO, the USMC, and NAVFAC, and will establish clear lines of authority for project management. It will specifically address roles and responsibilities for establishing and implementing an official acquisition strategy as well as financial management and oversight of Government of Japan funds. The estimated completion date is 31 May 09.

Recommendation 2: Immediately employ personnel with expertise and experience within acquisition program management, which includes ensuring the development of an official Acquisition (Program) Strategy that addresses the core elements of cost, schedule, performance, and an assessment of risks to achieving program goals and objectives.

JGPO response: Concur. JGPO has on staff two personnel who are members of the Acquisition Professional Community that will be responsible for the oversight of the

The management response shown here was provided in response to Naval Audit Service report N2009-0028. Per an agreement with the Office of the Assistant Secretary of the Navy (Installations and Environment), we are accepting the response as addressing Recommendation 1 of this report.

execution and maintenance of the strategy discussed under Finding 1.3. They arrived at JGPO approximately eight months ago. JGPO considers this recommendation closed.

Recommendation 3: Ensure a complete Acquisition (Program) Strategy is developed, implemented, and maintained using DoD Instruction 5000.2, SECNAV Instruction 5000.2C, and DAG concepts as a guide.

JGPO response: Concur. JGPO is establishing a Memorandum of Agreement with the Defense Acquisition University (DAU) to conduct a Program Review Board that will review the Program and help shape our Acquisition (Program) Strategy. The Program Review Board has been approved by ASN (I&E) with DAU as the lead and is scheduled to complete their evaluation and provide the draft report by July 2009. The evaluation will be based on the criteria as it is established in DoD Instruction 5000.02 (which replaced DoD Instruction 5000.2), SECNAV Instruction 5000.2C, and Defense Acquisition Guide (DAG). The Acquisition (Program) Strategy uses these instructions as the bedrock of acquisition strategy development; however, it will be shaped based on the findings of the Program Review Board report. The initial formal Acquisition (Program) Strategy will be promulgated by 15 September 2009.

Recommendation 4: Develop and implement procedures to track costs for all projects associated with the USMC relocation effort, and reassess cost estimates as changes in scheduling occur.

JGPO response: Concur. As a result of the audit, a process has since been developed and procedures implemented to track costs for all projects associated with the USMC relocation effort by Naval Facilities Engineering Command (NAVFAC). Within six months, JGPO will incorporate the existing processes and business practices to keep track and reassess cost estimates as changes in scheduling occur. Due to the size and constantly changing nature of the spreadsheet, a hard copy has not been included in this response, but is available for review by Naval Audit Service in JGPO's offices.

Recommendation 5: Develop, implement, and maintain a comprehensive schedule that incorporates a critical path analysis consistent with the DoD IMP and IMS Preparation and User Guide that incorporates, tracks progress, and accounts for slippages of USG, GoJ, GovGuam, and other critical milestones.

JGPO response: Concur. As a result of this audit, JGPO has since established a Master Program Schedule (MPS) that incorporates critical path analysis for critical milestones of all related activities being performed by DoD, GoJ, GovGuam, U.S. Congress, and Industry. This MPS is used at several levels of program management to maintain overall Program awareness as well as "by exception" management of key program elements that present high risk to Program execution. Due to the size of the MPS, a hard copy has not been included in this response, but it is available for review by Naval Audit Service in JGPO's offices. JGPO considers this recommendation closed.

Recommendation 6: Develop, implement, maintain, and document a formal risk management process to conduct risk identification, analysis, mitigation planning, mitigation plan implementation, and tracking of all risks associated with the USMC relocation effort.

JGPO response: Concur. As a result of this audit, JGPO has since developed a formal risk management process. In connection with the overall MIC Program Implementation Plan, JGPO will implement, and maintain a formal risk management process to conduct risk identification, analysis, mitigation planning, mitigation plan implementation, and tracking of all risks associated with the USMC relocation effort. JGPO will continue to identify internal and external risks that may prevent the organization from meeting its objectives and consider relevant interactions within and outside JGPO. In identifying risks, management considered internal and external audit findings, internal management review issues, and instances of non-compliance with laws and regulations. JGPO will review a broad spectrum of control activities to assess the risk of misstatement(s) in financial statements. JGPO's Goals and Objectives were developed in March 2009 and are updated regularly. JGPO considers this recommendation closed.

Recommendation 7: Ensure that the acquisition strategy, IMP and IMS, and risk assessment, when completed, are used to re-baseline the cost, schedule, and risks of the Guam relocation project and obtain necessary approvals for the changes to cost, schedule, and performance.

JGPO response: Concur. As part of the overall MIC Program Implementation Plan, JGPO will coordinate and integrate the acquisition strategy, integrated master plan and schedule, and risk assessment by 15 September 2009 to reestablish the cost, schedule and risks of the Guam move project and obtain necessary approvals for the changes to cost, schedule, and performance. In June 09 the acquisition strategy, master program schedule, risk assessment will be integrated into MIC Program Implementation Plan.

Because this letter originally responded to NAVAUDSVC report N2009-0028, there is no Enclosure (1) here, as noted in Paragraph 2.

2. Recommendations concerning withholding release of certain elements of the Final Report under the Freedom of Information Act are contained in Enclosure (1).
3. If you have any questions regarding this correspondence, please contact: [REDACTED]
JGPO CFO at [REDACTED] or e-mail: [REDACTED]

FOIA (b)(6)

FOIA (b)(6)

Distribution
Director, Naval Audit Service, Policy and Oversight

Appendix 2:

Management Response from Joint Guam Program Office



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(INSTALLATIONS AND ENVIRONMENT)
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

June 12, 2009

MEMORANDUM FOR ASSISTANT AUDITOR GENERAL FOR INSTALLATIONS AND
ENVIRONMENT

Subj: STATUS OF THE DEPARTMENT OF THE NAVY PROCESSES AND CONTROLS
REGARDING THE MANAGEMENT OF THE GOVERNMENT OF JAPAN FUNDS
RELATED TO THE MARINE CORPS' RELOCATION
(DRAFT AUDIT REPORT N2008-NIA000.0063.001)

Ref: (a) Draft Audit Report N2008-NIA000-0063.001 dated 27 Apr 09
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"
(c) NAVAUDSVC memo N2008-NIA000-0063.000, dated 9 Oct 2007

1. This memo is forwarded in response to the draft audit report provided under reference (a). In general, we concur with the audit findings and are proceeding with implementing actions but wish to clarify the recommendations:

Recommendation 1: ASN I&E develop and promulgate policy that defines the roles, responsibilities, and clear lines of authority for financial management; and coordinate with OSD and FMC to ensure that JGPO is able to maintain oversight of GOJ Mamizu funds.

JGPO response: An ASN (I&E) roles and responsibilities policy is being drafted by JGPO and will be sent out for coordination with other stakeholders prior to approval. The policy will define the roles and responsibilities of JGPO, the USMC, and NAVFAC, and will establish clear lines of authority for project management. It will specifically address roles and responsibilities for establishing and implementing an official financial management process.

The Marine Corps relocation from Okinawa to Guam is a very complex project that involves Japanese negotiations. In addition, there are many disparate organizations outside of ASN I&E that must promulgate policy and have actions regarding the Mamizu funds, which is the subject of this audit. JGPO is working with Marine Corps, NAVFAC, DFAS, and FMB to develop a comprehensive DoD management and control process that will define the use of GOJ Mamizu funds in relation to U.S. financial management procedures for the Marine Corps relocation. This process will clarify all stakeholders' roles and responsibilities. Ultimately, the USD Comptroller will promulgate interim fiscal policy until a formal change is made in the DoD Financial Management Regulations (FMR).

Subj: STATUS OF THE DEPARTMENT OF THE NAVY PROCESSES AND CONTROLS
REGARDING THE MANAGEMENT OF THE GOVERNMENT OF JAPAN FUNDS
RELATED TO THE MARINE CORPS' RELOCATION
(DRAFT AUDIT REPORT N2008-NIA000.0063.001)

JGPO is uniquely suited through its charter to "synthesize and coordinate" and bridge many diverse organizational equities. JGPO will continue to work with OSD, ASN I&E, ASN FM&C and other stakeholders to draft the policies that define roles, responsibilities and clear lines of authority for financial and program management regarding receipt, investment, contract award, disbursement, and reporting of GOJ Mamizu funds related to the Marine Corps relocation. We expect the USD Comptroller to issue the interim guidance by mid June 2009 prior to Japan providing the Mamizu funds to the US, and to update the FMR by 1 Sept 2009.

Recommendation 2: JGPO coordinate with DFAS, HQMC, and NAVFAC to provide visibility and oversight of GOJ Mamizu funds and Marine Corps relocation requirements.

JGPO response: Concur. JGPO is coordinating across elements of OSD, DFAS, HQMC, NAVFAC, and FMB organizations as well as GOJ to capture the most efficient GOJ funds administrative processes that will provide all parties with the policies and procedures for management and oversight of GOJ Mamizu funds, as noted above. Preliminary draft funds flow processes were shared with the Naval Audit Service on 15 May 2009. Interim and final closure on this recommendation is the same as recommendation 1.

2. Recommendations concerning withholding release of certain elements of the Final Report under the Freedom of Information Act have previously been provided.
3. If you have any questions regarding this correspondence, please contact: [REDACTED]
JGPO CFO at [REDACTED] or [REDACTED] or e-mail: [REDACTED]

FOIA (b)(6)

[REDACTED]
[REDACTED]

FOIA (b)(6)

Deputy Director
Joint Guam Program Office
By Direction

cc:
Director, Naval Audit Service, Policy and Oversight

Appendix 3:

Management Response from the Marine Corps



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
2 NAVY ANNEX
WASHINGTON, DC 20380-1775

IN REPLY REFER TO:

14 May 2009

MEMORANDUM

From: Branch Head, Defense Policy Review Initiative (DPRI)
Installation Implementation Branch (LFD)

To: PLU Action Officer, Strategy & Plans Office [REDACTED]

Subj: STATUS OF THE DEPARTMENT OF THE NAVY PROCESSES AND
CONTROLS REGARDING THE MANAGEMENT OF THE GOVERNMENT OF
JAPAN FUNDS RELATED TO THE MARINE CORPS RELOCATION

Ref: (a) Navy Audit Service Draft Report dtd 27 Apr 09

1. Per the reference, we have reviewed the draft report and provide the following comments on recommendation 3 that was addressed to the Commandant of the Marine Corps.

Recommendation 3 states: Direct Headquarters Marine Corps to coordinate with NavFac to facilitate the execution of the Marine Corps relocation GOJ Mamizu funds in the same manner as used for the standard military construction process.

LFD Response:

a. Headquarters Marine Corps concurs with the recommendation. The Installations and Logistics Department is working with the Assistant Secretary of the Navy (Installations and Environment), Joint Guam Program Office, and Naval Facilities Engineering Command staffs on a policy that defines all organizations' roles, responsibilities and authority lines for financial management.

b. HQMC is also working with all three of those organizations to clearly define processes outlining those roles, responsibilities, and authority. To that end, we have provided, ASN (I&E) and JGPO, our HQMC standing policy with NavFac on MILCON execution.

c. We defer to ASN (I&E) to provide a completion timeline as all three recommendations are being addressed collectively by all four organizations involved.

2. Our point of contact for this action is [REDACTED] LFD,
[REDACTED]

Copy to: Files [REDACTED]
[REDACTED]

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